

Consolidated Financial Statements and Report of
Independent Certified Public Accountants in
Accordance with OMB Circular A-133

NHS Pennsylvania

June 30, 2010 and 2009

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/29/11

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Grant Thornton

Report of Independent Certified Public Accountants

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We have audited the accompanying consolidated balance sheets of NHS Pennsylvania as of June 30, 2010 and 2009 and the related consolidated statements of operations and changes in unrestricted net assets and cash flows for the years then ended. These financial statements are the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NHS Pennsylvania as of June 30, 2010 and 2009, and its results of operations and changes in unrestricted net assets (deficiency) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010 on our consideration of NHS Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of NHS Pennsylvania taken as a whole. The accompanying supplementary information

listed in the table of contents is presented for purposes of additional analysis as required by pass-through agencies guidelines and is not a required part of the basic consolidated financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 23, 2010

CONSOLIDATED BALANCE SHEETS

June 30,

ASSETS	2010	2009
Current assets		
Cash	\$ 29,719	\$ 30,229
Restricted cash	199,199	179,237
Accounts receivable, net	20,043,007	24,469,246
Due from affiliates	2,579,632	-
Earned but unbilled accounts receivable	355,423	452,059
Prepaid expenses and other current assets	306,534	540,709
Total current assets	23,513,514	25,671,480
Property and equipment, net	10,497,461	10,245,105
Other assets	940,405	871,176
Total assets	<u>\$34,951,380</u>	<u>\$ 36,787,761</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities		
Short-term borrowings	\$ 8,571,535	\$ 9,528,008
Current maturities of long-term debt	146,596	132,559
Due to affiliates	-	9,067,813
Deferred revenue, current	548,076	574,183
Accrued payroll	3,958,841	4,139,987
Accrued expenses and other current liabilities	4,219,118	3,459,439
Total current liabilities	17,444,166	26,901,989
Deferred revenue and other long-term liabilities	2,854,199	3,488,653
Long-term debt, net of current maturities	2,896,287	2,713,430
Total liabilities	23,194,652	33,104,072
Unrestricted net assets	11,756,728	3,683,689
Total liabilities and unrestricted net assets	<u>\$34,951,380</u>	<u>\$ 36,787,761</u>

The accompanying notes are an integral part of these consolidated financial statements.

NHS Pennsylvania

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN
UNRESTRICTED NET ASSETS**

Years ended June 30,

	<u>2010</u>	<u>2009</u>
Revenues		
Net consumer service revenue	\$ 136,260,241	\$ 123,464,079
Other revenue	<u>722,087</u>	<u>437,383</u>
Total revenues	<u>136,982,328</u>	<u>123,901,462</u>
Expenses		
Salaries	65,486,766	59,641,687
Employee benefits	15,207,980	13,254,565
Purchased services	14,145,143	14,109,281
Occupancy	6,593,130	6,063,223
Insurance	1,648,450	1,181,958
Supplies and other	21,636,600	21,874,670
Provision for bad debts	2,685,486	2,197,301
Depreciation	1,338,902	1,111,637
Interest	<u>166,832</u>	<u>145,474</u>
Total expenses	<u>128,909,289</u>	<u>119,579,796</u>
Excess revenue over expense and change in unrestricted net assets	8,073,039	4,321,666
Unrestricted net assets (deficiency), beginning of year	<u>3,683,689</u>	<u>(637,977)</u>
Unrestricted net assets, end of year	<u>\$ 11,756,728</u>	<u>\$ 3,683,689</u>

The accompanying notes are an integral part of these consolidated financial statements.

NHS Pennsylvania

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	<u>2010</u>	<u>2009</u>
Operating activities		
Change in unrestricted net assets	\$ 8,073,039	\$ 4,321,666
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Loss on disposal of property	15,020	-
Depreciation	1,338,902	1,111,637
Provision for bad debts	2,685,486	2,197,301
Changes in operating assets and liabilities		
Change in restricted cash	(19,962)	(43,274)
Accounts receivable	1,740,753	(6,340,079)
Due to/from affiliates	(11,632,090)	(3,575,313)
Earned but unbilled accounts receivable	96,636	(114,342)
Prepaid expenses and other current assets	234,175	(421,023)
Other assets	(69,229)	(443,907)
Deferred revenue, current	(26,107)	224,065
Accrued payroll	(181,146)	1,378,399
Accrued expenses and other current liabilities	759,679	434,512
Deferred revenue and other long-term liabilities	(634,454)	1,291,818
Net cash provided by operating activities	<u>2,380,702</u>	<u>21,460</u>
Investing activities		
Purchase of property and equipment	(1,287,883)	(2,909,484)
Net cash used in investing activities	<u>(1,287,883)</u>	<u>(2,909,484)</u>
Financing activities		
Net (payments) proceeds from short-term borrowings	(956,473)	3,016,219
Principal payments on long-term debt	(136,856)	(126,849)
Net cash (used in) provided by financing activities	<u>(1,093,329)</u>	<u>2,889,370</u>
Net (decrease) increase in cash	(510)	1,346
Cash, beginning of year	<u>30,229</u>	<u>28,883</u>
Cash, end of year	<u>\$ 29,719</u>	<u>\$ 30,229</u>
Supplemental cash flow information		
Interest paid	<u>\$ 168,688</u>	<u>\$ 109,825</u>
Acquisition of property via assumption of debt	<u>\$ 333,750</u>	<u>\$ 954,098</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

NOTE A - ORGANIZATION

NHS Pennsylvania is a not-for-profit 501(c)(3), tax-exempt organization incorporated in the Commonwealth of Pennsylvania.

NHS Pennsylvania is the sole corporate member of NHS Stevens Center, which is the parent of Stevens Housing Corporation. NHS Pennsylvania and its subsidiary provide comprehensive community mental health and intellectual developmental disabilities services, consisting of crisis outpatient, partial hospitalization, consulting and education. NHS Pennsylvania also provides residential, aftercare, foster care and case management services to residents of central and western Pennsylvania, Louisiana, New York and Maryland.

NHS Human Services, Inc. (NHS) is the sole corporate member of NHS Pennsylvania. NHS is a not-for-profit, tax-exempt corporation that serves as the parent organization of its for-profit and not-for-profit organizations, which are committed to delivering, and supporting the delivery of, mental health, intellectual developmental disabilities, drug and alcohol, juvenile justice and other health and human services to the residents of Pennsylvania, Louisiana, New York, New Jersey, Maryland, Delaware, and Virginia.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated financial statements of NHS Pennsylvania are prepared and presented in accordance with accounting principles generally accepted in the United States for health care organizations. The consolidated financial statements include the accounts of NHS Pennsylvania and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Cash and Restricted Cash

NHS Pennsylvania participates in a consolidated cash management account with other NHS affiliates. All cash receipts are directed to lock boxes associated with the short-term borrowings (Note G). Restricted cash represents client funds held by NHS Pennsylvania.

3. Allowance for Doubtful Accounts

The allowance for doubtful accounts is maintained to absorb losses in NHS Pennsylvania's accounts receivable. NHS Pennsylvania continually monitors accounts receivable for collectibility issues. An allowance for doubtful accounts is based upon management's judgment and is established based on a review of the types of individual accounts, prior collection history, the nature of the service provided and other pertinent factors. Accounts deemed uncollectible are charged to the allowance. The allowance for doubtful accounts was approximately \$2,267,000 and \$1,653,000 at June 30, 2010 and 2009, respectively.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

4. Earned but Unbilled Accounts Receivable

NHS Pennsylvania is reimbursed by funding agencies for expenses in program-funded operations. Certain expenses are accrued for financial reporting purposes, but are not billed as program expenditures until paid. To properly match revenue and expenses, NHS Pennsylvania records an earned but unbilled accounts receivable for this accrual, and the related liability is included in accrued expenses. At June 30, 2010 and 2009, earned but unbilled accounts receivable are attributable to accrued vacation expenses.

5. Property and Equipment

Property and equipment are recorded at cost. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	10 - 30 years
Equipment, furniture and automobiles	3 - 15 years

6. Deferred Revenue

Portions of grant awards are utilized to purchase property and equipment. NHS Pennsylvania has deferred the recognition of grant revenue related to these acquisitions until the equipment is depreciated to properly match grant revenue and depreciation expense. This deferral is recorded as deferred revenue. Such property acquired is considered to be owned by NHS Pennsylvania while used in the program for which it was purchased or in other future authorized programs; however, the funding agencies maintain a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to government regulations.

7. Revenue Recognition

NHS Pennsylvania receives its funding through contracts with states, various cities and counties, federal programs and agreements with managed care and insurance organizations. These contracts generally fall into two categories: cost reimbursement and fee-for-service.

Net consumer service revenue is reported at the estimated net realizable amounts from consumers, third-party payors, and others for services rendered, including estimated retroactive settlements under reimbursement agreements with third-party payors. Payment arrangements include prospectively determined fee-for-service rates. The ultimate determination of amounts reimbursable under cost reimbursement contracts is based upon allowable costs to be reported to and audited by grantors and/or their agents.

Laws and regulations governing these programs are complex and subject to interpretation. NHS Pennsylvania believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Use of Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of the allowance for doubtful accounts for receivables, allocation of administrative expenses, assumptions used to determine liabilities for self-insured employee benefit plans and the useful lives of fixed assets. Actual results could differ from those estimates.

9. Income Taxes

A tax position is recognized or derecognized by NHS Pennsylvania based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NHS Pennsylvania does not believe its consolidated financial statements include any material uncertain tax positions.

10. Recently Adopted Accounting Pronouncement

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement establishing the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities. This guidance was effective for financial statements issued for periods ending after September 15, 2009. On the effective date, all accounting and reporting standards were superseded. NHS Pennsylvania adopted the presentation for the annual period ended June 30, 2010, as required, and adoption did not have a material impact on NHS Pennsylvania's consolidated financial statements.

11. Pending Accounting Pronouncement

In August 2010, the FASB issued guidance to reduce the diversity in practice related to the accounting by health care entities for medical malpractice and similar liabilities, and their related expected insurance recoveries. The new guidance requires that insurance claims liabilities be determined without consideration of any expected insurance recoveries, consistent with practice in other industries. The guidance also clarifies that health care entities should no longer net expected insurance recoveries against the related claims liabilities. The malpractice liability guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. A cumulative-effect adjustment should be recognized in opening equity (net assets) in the period of adoption if a difference exists between any liabilities and insurance receivables recorded as a result of applying the amendments in this guidance. Retrospective and early application is also permitted. NHS Pennsylvania is evaluating the impact of adopting this guidance on its consolidated results of operations and consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE C - NET CONSUMER SERVICE REVENUE

Concentrations of revenues are as follows for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Managed care organizations	48%	48%
County contracts	23%	41%
Medical Assistance	23%	6%

Net accounts receivable consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Managed care organizations	\$ 8,904,518	\$ 8,451,909
Medical Assistance	6,081,491	1,279,429
County	3,796,594	13,919,049
Other third parties	<u>1,260,404</u>	<u>818,859</u>
	<u>\$ 20,043,007</u>	<u>\$ 24,469,246</u>

NOTE D - PENSION PLAN

NHS has a 403(b) plan for substantially all employees of NHS and certain affiliates, including NHS Pennsylvania. Vesting in the plan is immediate. Employee contributions to the plan are fully matched up to 4.5% of the employees' salary. The plan also provides for an additional match of 5% of employee contributions for employees with at least 5 years of service, and 10% of employee contributions for employees with at least 10 years of service.

Employer contributions for the years ended June 30, 2010 and 2009 were \$863,924 and \$728,061, respectively.

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 734,882	\$ 761,041
Buildings and building improvements	10,483,190	9,237,909
Furniture, equipment and automobiles	<u>4,550,292</u>	<u>4,341,984</u>
Total property and equipment	15,768,364	14,340,934
Less accumulated depreciation	<u>(5,270,903)</u>	<u>(4,095,829)</u>
Property and equipment, net	<u>\$ 10,497,461</u>	<u>\$ 10,245,105</u>

Depreciation expense related to the property and equipment was \$1,187,553 and \$893,776 for the years ended 30, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE F - RELATED PARTY TRANSACTIONS

NHS Pennsylvania is one of a group of affiliated organizations related by way of common ownership and/or membership. NHS is the sole corporate member or parent company of each of the affiliated organizations. NHS Pennsylvania has significant transactions with members of the affiliated group for administrative and support services, and facility and equipment rentals. Repayment and receipt of amounts due to or from affiliated organizations is expected when cash is available. The Board of Directors authorized NHS, at the discretion of management, to charge a management fee to all non-profit subsidiaries of which it is the sole corporate member, in an amount not to exceed net income for the fiscal year. The amount due from affiliated organizations was \$2,579,632 for the year ended June 30, 2010. The amount due to affiliated organizations was \$9,067,813 for the year ended June 30, 2009.

For the years ended June 30, 2010 and 2009, NHS Pennsylvania incurred the following expenses with related parties:

	<u>2010</u>	<u>2009</u>
Administration and support services	\$ 13,086,199	\$ 12,955,518
Management fee	-	500,000
Depreciation	151,349	217,861
Facility, equipment and auto rentals	<u>526,057</u>	<u>608,219</u>
	<u>\$ 13,763,605</u>	<u>\$ 14,281,598</u>

Interest expense related to the outstanding short-term borrowings is charged to the affiliated organizations in accordance with the NHS cost allocation plan.

NOTE G - SHORT-TERM BORROWINGS

NHS Pennsylvania has a revolving credit loan with maximum borrowings to \$15,000,000. Interest is payable monthly at the annual LIBOR rate plus 4.00%, with an interest rate floor of 6.75% (effective rate of 6.75% at June 30, 2010 and 2009). The note expires in January 2012. The outstanding balance of this loan was \$8,571,535 and \$9,528,008 at June 30, 2010 and 2009, respectively. This line of credit facility is secured by all assets of NHS Pennsylvania.

NOTE H - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Mortgages and notes payable	\$ 3,042,883	\$ 2,845,989
Less current maturities	<u>(146,596)</u>	<u>(132,559)</u>
	<u>\$ 2,896,287</u>	<u>\$ 2,713,430</u>

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE H - LONG-TERM DEBT - Continued

NHS Pennsylvania obtained financing through various mortgage agreements to purchase residential properties. Each note is secured by the underlying property. Principal and interest payments are made in monthly installments throughout the terms of the mortgages (5 - 20 years). Interest rates on the mortgages are based on both fixed and variable rates ranging from 4.5% to 8.63%.

At June 30, 2010 and 2009, NHS and the Stevens Center have a secured note payable outstanding in the amount of \$490,000 and \$550,000, respectively. The note bears interest at the Wall Street Prime Rate plus 0.5% (effective rate of 3.75% at June 30, 2010 and 2009). Principal payments in the amount of \$5,000 are due monthly. This note expires in July 2018.

Future Principal Payments

Future maturities of principal payments on long-term debt, for the next five years, are as follows:

Year ending June 30:

2011	\$ 146,596
2012	152,068
2013	1,101,030
2014	901,148
2015	354,352

The debt agreements require NHS to comply with certain terms, covenants, provisions and conditions, including, but not limited to, limitations on additional indebtedness and satisfaction of certain measures of financial performance.

The estimated fair value of long-term debt, based on quoted market prices for the same or similar issues, approximates its carrying value at June 30, 2010 and 2009.

NOTE I - COMMITMENTS AND CONTINGENCIES

1. Lease Commitments

NHS Pennsylvania has entered into lease agreements for real estate, vehicles and equipment with various vendors. NHS Pennsylvania also enters into formal leases with affiliates. Various leases, both with vendors and affiliates, are renewed on a year-to-year basis, and are thus excluded from the future minimum rental payments in the following table.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year ending June 30:

2011	\$ 2,079,452
2012	1,855,320
2013	1,064,229
2014	1,005,055
2015	791,650
Thereafter	<u>1,491,673</u>
	<u>\$ 8,287,379</u>

Rental expense for the years ended June 30, 2010 and 2009 totaled \$5,306,552 and \$4,860,009, respectively.

A related party is committed under an operating lease agreement for a property which is being utilized by NHS Pennsylvania for the years ended June 30, 2010 and 2009. Rent expense of \$71,286 and \$101,598 was paid by NHS Pennsylvania under this agreement. Payments required under this agreement are excluded from NHS Pennsylvania's future minimum lease payment schedule.

2. Professional Liability Insurance

NHS Pennsylvania maintains professional liability insurance coverage of \$5,000,000 per occurrence up to an annual aggregate of \$5,000,000. The cost of professional liability insurance amounted to \$671,075 and \$501,233 in 2010 and 2009, respectively.

There are known incidents occurring through June 30, 2010 that may result in the assertion of claims against NHS Pennsylvania, and other claims may be asserted arising from services provided to consumers in the past. In management's opinion, NHS Pennsylvania has adequate insurance coverage with respect to each of these incidents and does not believe that ultimate resolution of such claims would materially impact the accompanying financial statements.

3. Self-Insured Employee Benefit Plans

NHS provides vision, dental, prescription, unemployment and workers' compensation coverage on a self-insured basis to substantially all employees of NHS.

Management has established premiums for the self-funded plans based upon the combined claims history of all plan members. Additionally, NHS maintains a reinsurance policy for workers' compensation claims that exceed specified deductibles on an individual and aggregate basis.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2010 and 2009

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

Due to the complexities and uncertainties involved in the actuarial evaluations, actual results could vary significantly from the estimated projections.

4. Litigation

NHS Pennsylvania is from time to time subject to routine litigation incidental to its business. Management and its counsel believe that insurance policies are sufficient to cover potential settlements and that any pending litigation will not have a materially adverse effect on NHS Pennsylvania's consolidated financial position.

NOTE J - FUNCTIONAL EXPENSES

NHS Pennsylvania is committed to delivering, or supporting the delivery of, behavioral health and intellectual developmental disabilities to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2010</u>	<u>2009</u>
Program expenses		
Behavioral health	\$ 84,539,113	\$ 84,644,601
Intellectual developmental disabilities	29,865,169	20,110,254
General and administrative expenses		
Indirect costs	14,505,007	14,324,941
Management fee	<u>-</u>	<u>500,000</u>
Total expenses	<u>\$128,909,289</u>	<u>\$119,579,796</u>

NOTE K - SUBSEQUENT EVENTS

NHS Pennsylvania evaluated its June 30, 2010 consolidated financial statements for subsequent events through December 23, 2010, the date the consolidated financial statements were available to be issued. NHS Pennsylvania is not aware of any subsequent events, except as described below, which would require recognition or disclosure in the consolidated financial statements.

Effective July 1, 2010, the assets, liabilities and operations of Edgewater and Northwestern Human Services of Susquehanna Valley were merged into NHS Pennsylvania.

SUPPLEMENTAL INFORMATION

NHS Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal year ended June 30, 2010

<u>Grantor/pass-through agency</u>	<u>Federal program name</u>	<u>Federal CFDA number</u>	<u>Grant period</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services				
Pass-through Pennsylvania Department of Public Welfare	Medical Assistance (Medicaid)	93.778	7/1/09 - 6/30/10	\$ 13,290,984
Pass-through State of Louisiana Metropolitan Human Services District	Centers for Medicare and Medicaid (CMS) Research	93.779	7/1/09 - 6/30/10	325,785
Pass-through Pennsylvania Department of Public Welfare Various County Children and Youth Programs	Temporary Assistance for Needy Families (TANF)	93.558	7/1/09 - 6/30/10	125,212
Pass-through Pennsylvania Department of Public Welfare Various County Children and Youth Programs	Foster Care: Title IV-E	93.658	7/1/09 - 6/30/10	2,072,739
Pass-through Pennsylvania Department of Public Welfare Various County Children and Youth Programs	Foster Care: Title IV-E Stimulus	93.658	7/1/09 - 6/30/10	56,050 2,128,789
Total Foster Care: Title IV-E				
Pass-through Pennsylvania Department of Public Welfare Various County Children and Youth Programs	Foster Care: Title IV-B	93.645	7/1/09 - 6/30/10	2,648
Pass-through Pennsylvania Department of Public Welfare County Mental Health and IDD Programs	Block Grants for Community Mental Health Services	93.958	7/1/09 - 6/30/10	123,128
Pass-through Pennsylvania Department of Health Administration for Children and Families	Social Services Block Grant	93.667	7/1/09 - 6/30/10	587,559
Total U.S. Department of Health and Human Services				16,584,105
U.S. Department of Housing and Urban Development				
Direct Funding	Supportive Housing Program	14.235	7/1/09 - 6/30/10	74,396
Total U.S. Department of Housing and Urban Development				74,396
Total Federal Awards				\$ 16,658,501

The accompanying note to the Schedule of Expenditures of Federal Awards should be read in conjunction with this schedule.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2010

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the grant expenditures of NHS Pennsylvania and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



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**Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards**

Board of Directors
NHS Pennsylvania

We have audited the consolidated financial statements of NHS Pennsylvania, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NHS Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of NHS Pennsylvania's internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in NHS Pennsylvania's internal control over financial reporting. We did not identify any deficiencies in NHS Pennsylvania's internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NHS Pennsylvania's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of NHS Pennsylvania in a separate letter dated November 29, 2010.

This report is intended solely for the information and use of management, the Board of Directors and the applicable federal agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 23, 2010



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**Report of Independent Certified Public Accountants on
Compliance With Requirements That Could Have a Direct
and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance With OMB
Circular A-133**

Officers and Directors
NHS Pennsylvania

Compliance

We have audited the compliance of NHS Pennsylvania with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2010. NHS Pennsylvania's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of NHS Pennsylvania's management. Our responsibility is to express an opinion on NHS Pennsylvania's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NHS Pennsylvania's compliance with those requirements.

In our opinion, NHS Pennsylvania complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of NHS Pennsylvania is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants

applicable to federal programs. In planning and performing our audit, we considered NHS Pennsylvania's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of NHS Pennsylvania's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in NHS Pennsylvania's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance on a timely basis with a type of compliance requirement of a federal program. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that the material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, we did not identify any deficiencies in NHS Pennsylvania's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

This report is intended for the use of management, the Board of Directors and the applicable federal agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 23, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major program:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major program:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major program:

CFDA NumbersName of Federal Program or Cluster

93.778

Medical Assistance (Medicaid)

93.658

Foster Care: Title IV-E

93.667

Social Services Block Grant

Dollar threshold used to distinguish between type A and type B programs

\$499,755

Auditee qualified as low-risk auditee?

☒ yes ☐ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2010

Section II - Financial Statement Findings

No matters required to be reported.

Section III - Federal Award Findings and Questioned Costs

No matters required to be reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2010

None noted.



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**Agreed-Upon Procedures Report of Independent Certified
Public Accountants on Indirect Cost Allocation**

Board of Directors
NHS Pennsylvania

We have examined management's assertion about NHS Pennsylvania's (NHS Pennsylvania) compliance with The Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations during the year ended June 30, 2010. Management is responsible for NHS Pennsylvania's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about NHS Pennsylvania's compliance based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about NHS Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NHS Pennsylvania's compliance with The Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 regulations.

In our opinion, NHS Pennsylvania complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

This report is intended for the information of the Board of Directors, management of NHS Pennsylvania, and applicable federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania

December 23, 2010

COUNTY SUPPLEMENTAL INFORMATION

COUNTY PURCHASE OF SERVICE SCHEDULES
COMMUNITY RESIDENTIAL REHABILITATION PROGRAM
THERAPEUTIC FAMILY CARE
FOSTER CARE PLUS



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**Report of Independent Certified Public Accountants on
Supplemental Information**

Board of Directors
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2010, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

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Philadelphia, Pennsylvania

December 23, 2010

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NHS Pennsylvania
Foster Care Plus
Schedule of County Program Census Days
FY 2009-2010

<u>COUNTY</u>	<u>FUNDING SOURCE</u>	<u>DAYS</u>
Adams	C&Y	2,344
Adams	JPO	172
Allegheny	C&Y	1,287
Armstrong	C&Y	332
Bedford	C&Y	1,943
Berks	C&Y	4,551
Blair	C&Y	4,439
Blair	JPO	72
Bradford	C&Y	3,741
Bucks	C&Y	765
Butler	C&Y	2
Cambria	C&Y	6
Cambria	JPO	119
Carbon	C&Y	730
Centre	C&Y	363
Chester	C&Y	7
Clearfield	JPO	42
Clearfield/Jefferson	MH/IDD	22
Columbia	C&Y	635
Columbia	JPO	33
Crawford	C&Y	163
Cumberland	C&Y	6,658
Cumberland	JPO	464
Dauphin	C&Y	8,484
Delaware	C&Y	60
Erie	C&Y	127
Fayette	C&Y	44
Franklin	JPO	3,136
Fulton	C&Y	3,402
Huntingdon	C&Y	644
Huntingdon	JPO	311
Indiana	C&Y	366
Lackawanna	C&Y	459
Lancaster	C&Y	7,741
Lebanon	C&Y	1,370
Lebanon	JPO	68
Lehigh	C&Y	4,551
Luzerne	C&Y	407
Lycoming	C&Y	165
Mercer	C&Y	141
Mifflin	C&Y	2,788
Monroe	C&Y	1,601
Northampton	C&Y	2,328
Northumberland	C&Y	209
Perry	C&Y	236
Pike	C&Y	143
Schuylkill	C&Y	1,374
Snyder	C&Y	422
Somerset	C&Y	57
Tioga	C&Y	160
Union	C&Y	94
Washington	C&Y	658
Westmoreland	C&Y	346
Westmoreland	JPO	36
York	C&Y	6,538
York	JPO	73
	Totals	<u>77,429</u>

NHS Pennsylvania
Therapeutic Family Care
Schedule of County Program Census Days
FY 2009-2010

COUNTY	FUNDING SOURCE	DAYS
Adams	C&Y	1,412
Allegheny	C&Y	1,451
Armstrong	C&Y	2,080
Beaver	C&Y	260
Beaver	JPO	161
Bedford	C&Y	176
Berks	C&Y	4,777
Blair	C&Y	1,267
Blair	C&Y - MTFC	314
Blair	JPO	1,072
Bradford	C&Y	3,956
Bucks	C&Y	395
Bucks	JPO	365
Bucks	MH/IDD	354
Butler	C&Y	340
Butler	JPO	10
Butler	MH/IDD	15
Cambria	C&Y	401
Cambria	JPO	598
Cambria	MH/IDD	14
Carbon	C&Y	519
Carbon	C&Y - Infant Combo	339
Centre	C&Y	93
Centre	MH/IDD	46
Chester	C&Y	1,329
Chester	MH/IDD	678
Clarion	MH/IDD	252
Clearfield	C&Y	100
Clearfield	JPO	41
Clearfield/Jefferson	MH/IDD	5,760
Clinton	C&Y	120
Columbia	C&Y	818
Columbia	JPO	332
Crawford	C&Y	1,088
Cumberland	C&Y	2,316
Cumberland	JPO	375
Cumberland	JPO - Infant Combo	127
Dauphin	C&Y	2,649
Delaware	C&Y	186
Elk	MH/IDD	14
Elk	C&Y	2,598
Fayette	C&Y	1,339
Franklin	JPO	1,748
Fulton	C&Y	103
Greene	C&Y	161
Huntingdon	C&Y	324
Huntingdon	C&Y - MTFC	117
Huntingdon	JPO - MTFC	54
Indiana	C&Y	1,085
Jefferson	C&Y	833
Lackawanna	C&Y	271
Lackawanna	JPO	7
Lancaster	C&Y	2,390
Lawrence	C&Y	1,085
Lebanon	C&Y	1,449
Lebanon	JPO	274
Lehigh	C&Y	2,498
Lehigh	JPO	145
Lehigh	MH/IDD	136
Luzerne	C&Y	662
Lycoming	C&Y	363
McKean	C&Y	379
Mercer	C&Y	873
Mifflin	C&Y	297
Monroe	C&Y	1,879
Montgomery	C&Y	365
Montgomery	JPO	22
Northampton	C&Y	1,589
Northampton	JPO	240
Northampton	MH/IDD	872
Northumberland	C&Y	3,004
Northumberland	JPO	100
Northumberland	MH/IDD	9
Perry	C&Y	289
Perry	JPO	112
Sam Inc - Berks	MH/IDD	2,844
Sam Inc - Huntingdon	MH/IDD	30
Sam Inc - Schuylkill	MH/IDD	1,832
Schuylkill	C&Y	632
Schuylkill	JPO	10
Snyder	C&Y	826
Snyder	JPO	73
Somerset	C&Y	83
Tioga	C&Y	1,477
Union	C&Y	324
Venango	C&Y	300
Venango	JPO	571
Washington	C&Y	1,524
Washington	JPO	92
Westmoreland	C&Y	2,336
Westmoreland	JPO	181
York	C&Y	2,029
York	JPO	345
York/Adams	HCMU	3,195
York/Adams	MH/IDD	518

TOTAL 83,394

NHS PENNSYLVANIA
COMMUNITY RESIDENTIAL REHABILITATION PROGRAM
SCHEDULE OF CENSUS DAYS
 For the Year Ended June 30, 2010

<u>COUNTY/PROGRAM</u>	<u>EMMAUS AVE.</u>	<u>COLEMAN STREET</u>	<u>TOTAL</u>
LEHIGH MH/IDD Program - CRR	83		83
LEHIGH Juvenile Probation Department - CRR		134	134
LEHIGH Children and Youth Program - CRR	467	310	777
NORTHAMPTON MH/IDD Program - CRR	110		110
NORTHAMPTON Children and Youth Program - CRR		38	38
TOTAL	660	482	1142

LOUISIANA DHH - NEW ORLEANS
MH PROGRAM SCHEDULES



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Report of Independent Certified Public Accountants on Supplemental Information

Board of Directors
NHS Pennsylvania

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of NHS Pennsylvania as of and for the year ended June 30, 2010, which are presented in the preceding section of this report. The following supplemental information for the year ended June 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we express no opinion on it.

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Philadelphia, Pennsylvania

December 23, 2010

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NHS Pennsylvania
Louisiana DHH - New Orleans
Schedule of Individual Program Revenues and Expenses
For the year ended June 30, 2010

	FACT	ACT	Total
REVENUE			
DHH LOUISIANA	\$ 1,059,887	\$ 1,191,856	\$ 2,251,743
OTHER	-	-	-
TOTAL REVENUE	1,059,887	1,191,856	2,251,743
DIRECT PERSONNEL SERVICES			
PERSONAL SERVICES	662,473	750,771	1,413,244
RELATED BENEFITS	117,746	141,791	259,537
PROFESSIONAL SERVICES	-	29,831	29,831
TOTAL DIRECT PERSONNEL SERVICES	780,219	922,393	1,702,612
OPERATING EXPENSES			
OPERATING SERVICES	58,539	61,560	120,099
SUPPLIES	22,458	20,789	43,247
TRAVEL	86,896	70,227	157,123
CAPITAL ASSETS	7,715	7,715	15,430
TOTAL OPERATING EXPENSES	175,608	160,291	335,899
OTHER EXPENSES			
ADMINISTRATIVE	104,325	109,407	213,732
TOTAL OTHER EXPENSES	104,325	109,407	213,732
TOTAL EXPENSES	1,060,152	1,192,091	2,252,243
DUE TO COUNTY / (UNREIMBURSED COST)	\$ (265)	\$ (235)	\$ (500)

Internal Control Letter

NHS Human Services, Inc.

June 30, 2010



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November 29, 2009

Management and the Audit Committee of the Board of Directors
NHS Human Services, Inc.
Lafayette Hill, Pennsylvania

In connection with our audit of NHS Human Services, Inc.'s ("NHS") consolidated financial statements as of June 30, 2010 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") established by the American Institute of Certified Public Accountants require that we advise management and the Board of Trustees of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of NHS Human Services, Inc.'s internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

We identified the following internal control matters as of the date of this letter that are of sufficient importance to merit your attention. The matters discussed herein are those that we noted as of November 29, 2010, and we did not update our procedures regarding these matters since that date to the current date.

Recommendations to strengthen internal control

We recommend that NHS and those charged with governance consider the following actions:

INFORMATION TECHNOLOGY

Observation and Recommendation:

During our current year audit, we noted that management continues to make significant improvements surrounding their information technology (IT) infrastructure, network security and applications. We also recognize that management has implemented recommendations for improvement from the prior year within their overall IT plan while prioritizing more critical issues. In the current year, the following opportunities exist to continue to enhance the overall security and change management process at NHS:

- Administrative access to certain systems by employees may create segregation of duties concern. This access was removed subsequent to year end. We recommend that management re-assess responsibilities over security administration on a regular basis and segregate functions whenever possible, and limit access to individuals who are not end users and do not have responsibility for financial reporting.
- NHS has not formalized their process and methodology for systems implementation and change management. Accordingly, certain procedures may not be consistently implemented. We recommend that management establish formal procedures to ensure that systems implementation projects and changes follow a standardized process, including proper documentation of approval.
- Currently, certain security event logs are reviewed on an as needed basis. However, documentation of review is not retained. In addition, there has not been a formal IT vulnerability assessment or intrusion testing completed during the audit period. We recommend that management implement a periodic review and retain formal documentation of the review of security events. Additionally, management should conduct intrusion testing and/or network vulnerability assessments on a periodic basis.

- Management has implemented a periodic review of user profiles and access rights for their general ledger and payroll system. However, we recommend that management expand this practice to other systems such as Avatar.

Management's Response:

- IT Management will continue to assess and review security roles and business functions to ensure appropriate levels of segregation are maintained.
- Currently, all change requests are documented and entered into an IT work order system. IT Management has been evaluating automated workflow management systems throughout the current calendar year with the intent of designing a Formal Change Management process for late FY 2011. IT Management also recognizes the need for formal procedures and documentation for implementation projects. IT Management plans to hire an IT Project Manager with the expectation that this role will fill that gap in formal process documentation.
- IT Management has continued to evaluate several solutions for event log management and reporting. Currently, the best solution, meeting all current needs, has not been identified. IT Management expects to budget for such a solution to be implemented in fiscal year 2012. Based on previous Audit findings, a network vulnerability assessment was budgeted for and performed in September, 2010. IT Management will develop a formal process to perform periodic internal and external intrusion testing and vulnerability assessments, utilizing a similar platform to our contracted vendor.
- Currently, reports are run to identify users who have not accessed the Avatar system for a specific period of time. Identified users' access is promptly removed. IT Management will work with the Avatar team and appropriate departmental staff to develop a formal review process of the Avatar applications' user profiles and security access rights.

* * * * *

NHS Human Services, Inc.'s written response to the recommendations identified herein has not been subjected to our audit procedures, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, those charged with governance, others within NHS Human Services, Inc. and applicable federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Grant Thornton LLP